EPISODE 445

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Randy Langenderfer, thanks for being on the show Randy.

[0:00:33.6] RL: It's my pleasure Whitney, good to talk to you again.

[0:00:35.1] WS: Yeah, you as well. I know I enjoyed getting to meet you and we had a meal together in a mastermind that we're both in. Anyway, just enjoyed our conversation and then looking forward to our conversation today. Randy, a little about Randy, if you don't know who he is, he is a long-time real estate investor and resides in Houston Texas.

He started as a hard money lender doing single-family flips, has been in multi-family for the last five and a half years, and is currently involved in over 2,400 doors as an LP or GP. He has completed the full stock on four properties and his first property is a GP, just went full stock, returning 1.9x to investors in 21 months. That's pretty good Randy Can't complain with that at all. But tell the listeners a little more about who you are and let's dive in.

[0:01:20.6] RL: Thanks Whitney. I currently reside in Houston Texas, but I tell people that I'm a lifelong buck guy, so if you could see behind me there is a big horseshoe. Proper buck guy, currently living in Houston Texas and came here about seven years ago for business purposes, relocated after being in Ohio most of my life.

I started single-family flipping and came to Houston really excited about the fourth largest metro area in the US, thinking I could kill it down here. I got started in a couple of the different mentoring groups down here and Meetups at the time. I found that I got connected with multi-family and soon after I got down here, about six months, seven months, and really have never looked back.

I just enjoy it. It's a great asset class. I'm a big believer in it. It's a lot less labor intensive than it is single-family and so, I started investing passively in real estate deals to learn because I was one of those stubborn ones that wanted to see it and touch it and analyze it before I really threw a whole lot of my money down. Then two years ago, we signed up for our first GP as you mentioned, and can talk more about that, but it's just a lot of fun. I really enjoy it and I'm looking forward to continuing to do this for a long time.

[0:02:32.0] WS: Nice. Maybe you could elaborate on a little bit about the starting in this business by investing passively and how that helped you, or would you recommend it?

[0:02:39.1] RL: Yeah, I think everybody's why they do this is different and I first got started because I was looking for – starting to plan my retirement and wanted a job or a passion. Jobs are sometimes considered negatively. I still enjoy mine and I'm still working but I got involved because I was looking to complement my retirement and I wanted something to do in retirement. So, I joined a couple of big mentor groups and decided that I was going to learn from people going through it.

I did that. I got involved with the Lifestyles Group here in Houston for a while, the Sumrok Group in Dallas. You and I are both in the Khleif Mastermind today and enjoying those. But I just simply said, I wasn't going to – I was kind of stubborn, I wasn't going to pay large sums of money to just get involved. I was willing to pay money to learn and have others teach me along the way. I got connected with a couple of different sponsors that were willing to spend some time with me.

I think the best thing I can encourage people to do is, I've learned over the years that there's really no such thing as a passive investment. I think to make my mentors told me, you know, be an active-passive investor. Ask questions, don't be a nuisance, but ask questions, get involved in the numbers, if you want to learn the business.

I mean, if you truly just want to put your money at something, this is a great asset class to do that as well.

[0:04:06.0] WS: Couldn't agree more that there's no investment that's completely passive, or I mean, in real-estate that I know of. I mean, some are more passive than others. But ask questions and because you're still in control of where you're putting your money and if you don't' ask questions –

[0:04:21.1] RL: It's surprising as, you know, the number of investors after being on the GP side, you don't hear from them at all. That's okay. That's their business plan. Maybe I'm a finance accounting person at heart and why not understand the numbers and the deal flow and the poses and the minuses. Not all of them work out wonderful but vast majority of them do. So just especially for – I'm a coach for Khleif's group today, Rod Khleif's group. You see a lot of the younger people coming in, or new people, they're not always young but new people coming in that just want to get rich quick I say. That can happen but it doesn't always happen.

[0:04:57.2] WS: Right, you had a deal Randy that you had some property management issues, is that right?

[0:05:02.0] RL: Yeah, I mentioned the first GP deal. It was something that basically I had some mentor friends tell me, "Randy, don't do that" Being the stubborn one, I did it anyhow with a couple of partners and the city was Dumont Texas which is about 150 miles east of Houston and I tend between here and Lake Charles. 1965 build, 139 units, flat roofs, chillers and boilers. My friend said, "Don't do a chiller boiler and don't do a flat roof."

We took over the property in about January of 18 and we're all excited and gung-ho and had a strategy to raise rents. We bought it very well, we were fortunate enough to buy it very well. Hard to raise rents and literally, if you've been in this, all the mentor's coaches will tell you that sooner or later, somebody's going to die in your property or there's going to be a fire.

Well, two months into it, we had a fire, we lost eight – a building, eight units out of a 139, taken down to the studs and so we had those challenges abound, rebuilding, working through contractors. We were trying to save money, so we were serving as the general, we were hiring construction people, working through the timing, working with the property management company.

About the same time, we had realized that the property management company we had was really not well-suited, they were just – they were more of a HOA property manager than a multi-family property manager. We ended up changing property management companies and got a new onsite property manager and was working through training her. She didn't have multi-family experience, she had commercial real estate experience, great person, very tenant-friendly communication wise.

It was just a really great education to learn from the financial side, to when you have a fire, we had all the proper insurance, we had loss expense, we had property casualty et cetera. We were well protected but you learn very quickly that those rental reimbursements comes months later and so you have to plan for the cash flow to rebuild and then get reimbursed by the builder and that can create a real hardship on the property finances. That we learned as well while we were going through our property management change, et cetera.

We were fortunate enough to be able to get reimbursed at the end, so we had investor questions because we weren't paying distributions for about six, nine months. We made our first distribution at the end of the first year and it was less than anticipated. We got to answer all those questions which were very fun I'll say, sarcastically.

It was just a wealth of an education. The thing that we're happy to say though as you kind of said in the opening comments, we bought it and we closed in January '18, we sold it in October of '19 just a couple of months ago, we were able to return 1.9x to the investors. So, for dollar they invested, they got a buck 90 back.

I got to tell you, Whitney, there was a time there when I was wondering if that was ever going to happen early on in a project but we're really happy that it worked out in the end.

[0:08:12.9] WS: I mean, obviously, numerous questions I've got for you. I think a lot of people would have said, "Wait a minute, you made a big – if you didn't tell us about the 1.9x, a lot of people would have said, "Well, you know, that was a big mistake and you didn't listen to all those mentors." You know, there were people that were saying, "Don't do that," you know, in the very beginning. What do you say to that now?

[0:08:31.4] RL: Yeah, I would personally today say I will not invest in a chiller-boiler property myself. That doesn't mean – but those are big value ad opportunities too, it's just that they become very capital intensive and so we had gone in with our business plan to replace boilers, chillers. One chiller, two chillers, two boilers and upgrade some roofs and so a 1965 build, it's a 50-year-old asset, chiller-boiler. We bought it very well, that is the bottom line, at a time when it was not being well-marketed, and the broker was fairly incompetent.

I would tell people just make sure you know what you're getting into. I don't say no to those, I personally don't want to invest with one but that doesn't mean there's not a lot of value ad opportunity there. As long as your cap X budget is well planned for and can handle it, as well as the heat in Texas. If a chiller goes out in the middle of the summer, the heat in Texas can be brutal if you don't have air conditioning in apartments.

Thankfully we never had that, we were able to manage the downtime of those units in the winter and in the summer, but it just becomes a lot of work when we didn't have a functioning property manager.

[0:09:41.3] WS: Yeah, you mentioned that you didn't pay distributions for six to nine months. What was the distribution plan, say before, when you closed, what was the distribution plan?

[0:09:52.5] RL: We had targeted, I think it was either 9.9 or even 10% for year one and we ended up, it wasn't, if I said six to nine, months, it was actually like in 11th month, we finally made a distribution and it was five and a half percent of what we made and so I think our investors were fairly understanding, given the fire, given the issues that we had communicated.

You also learn a lot about investor communications along the way. Generally speaking, you need to tell bad news early to investors and need to explain the business plan of how you're going to get it back on track. That's not a fun conversation but it's essential. I think again, fast forward into the current, I think those investors will come back on our next project because they've seen how we handle that. I've been in projects for – that isn't always the case, communication isn't always as effective because nobody likes to give bad news.

[0:10:44.5] WS: Right. You closed and then two months later, you have this fire. Tell me, what was the way that you reached out to investors and let's talk about those conversations a little bit.

[0:10:55.9] RL: Yeah, that's a call I hope that nobody on your podcast ever gets. I'm sitting in my office and I get a call from the property manager, he says, "Randy, the building's on fire." I thought it was a practical joke, but they sent me the picture of the news media that had come on site because the news media jumps all over that in a smaller community and disabling the tenants et cetera.

It was really just a matter of first and foremost, you're always looking for the tenant's safety, right? You want to get them stabilized. Thank goodness it was only eight units of 139 that were displaced. Property management, got American Red Cross out there, got people displaced, put them in hotels, we actually paid for a couple of nights. But you know, they've got to get all their stuff out of the units in time. It's first and foremost, the tenant's safety, you want to talk about and make sure you get covered.

Because the investors, although they're investors, they truly want to know that too, you know? We are really thankful nobody was injured or killed in a fire because we had a lot of old tenants. It's really just developing that communication planning, you know, we're sending a URL out to the investors with the video from the local news media, showing flames coming through the roof and out the window.

We're not trying to underestimate it, we're trying to communicate that nobody is injured, thank goodness. Thirdly, that we have appropriate insurance for this type of event. It wasn't totally unplanned for. Then it's just a matter of starting the rebuild, putting Humpty Dumpty back together again is the challenge.

[0:12:24.3] WS: Were the investors expecting a quarterly distribution?

[0:12:27.0] RL: That's the way we had promoted it early. Month two, we didn't even get to the first quarter end before we had bad news and had to say, "It's not going to happen quarter one, we're still optimistic and bullish on this asset but we've had some body blows given to us."

[0:12:43.6] WS: Yeah. Tell me about some of the investor's responses?

[0:12:46.8] RL: You know, I think we tried to take a very active approach. So, I mean, the ones I brought in, I actually got – before the email actually went out to the investors, I got on the phone and I called them. Just to talk to them, so trying to make it more of a personal touch than just an email and telling them what happened and what's going to be forthcoming et cetera.

I mean, by and large, the vast majority of them were very understanding. I think there were a couple that really wanted to know how it affects the distributions and at that point in the cycle, you're really not able to predict that with any accuracy because you're not – we subsequently learned and, you know what it is, you're not going to get reimbursement insurance until it's actually rebuilt and re-leased up. That's at least an optimistic seven, eight, for us it was nine months.

[0:13:34.5] WS: That alone is a great point that you just made from insurance and, you know, you're not going to get that money until it's built, you know, you feel like – maybe that's not always the case but there are times and you know, that is a great discussion you have with your insurance provider before you close or before you use that insurance provider. You know, how is the funding going to work when there's a fire?

[0:13:54.1] RL: This had multiple buildings on it too, the other thing, lesson learned that I learned going through this is, you know, do you have deductibles in every building? Or are they overall property? Because some people will try to sell you a great premium by giving you a deductible per building versus the overall property and if you have a fire on multiple buildings that could put a world of hurt on your cash flow. So, you have a $10,000 deductible per building versus per property.

[0:14:19.9] WS: So, what was maybe the worst response from an investor that you received?

[0:14:23.9] RL: Worst response… and it really was fairly mild in terms of really angry but just really frustrated, you know, "What happened and why did it happened and did you do your job?" You know, in retrospect we find out that the cause of the fire was a tenant who had a barbeque pit on their balcony. You know, why pre-tell does the property manager firm let them have that? So, that was an immediate fix. You know, another lesson learned is to make sure that all of your tenants and we required it thereafter is that all of your tenants have renter's insurance.

So that you're not totally on the hook as the property manager, or as the asset manager, they have a recourse to go back to their person and that could be gotten for pennies on the dollar from the tenant perspective. They can get it from anyone of their auto-brokers or anybody and we had agents that would come forth as well to sell them to and going forward. So, that became another trigger point going forward, is you have to have as part of the tenant profile and are onboarding this, you've got to have proof of renter insurance.

[0:15:27.2] WS: Wow, now that is some great points right there. For what you have to pay for hotel and displacing tenants and all, you could have almost paid for probably renter's insurance for everybody and it is really cheap, right? I mean the renter's insurance is so cheap and you can probably find a provider who you can have it in-house almost, or kind of tell the tenants, you know, "We've got this person and this provider."

[0:15:50.0] RL: It is certainly worth looking into depending on what geographic area you are in the country but it is certainly worth looking into and you know the other thing is just the way I learned it is that just from a liability perspective. If the tenant drives their car into your unit, renter's insurance will cover that. That didn't happen to me, but I know it's happened to other syndicators that I talked to, just freak accidents like that.

[0:16:08.4] WS: Yeah, did you all have a reserved budget or a reserved account?

[0:16:11.2] RL: Yes we did, thank goodness. We did have a capital reserve account and we are also, you know it is interesting, during our rehab. I mentioned we were able to replace the roof of the building that caught fire, that had fire coming through it. So, we got to replace it again but thank goodness it was covered by insurance.

[0:16:31.6] WS: Wow, okay and then I mean so what would have happened if you didn't have that reserve budget?

[0:16:37.0] RL: Man, I can't even, I don't even want to think about that Whitney. I am assuming –

[0:16:41.0] WS: Yeah, I mean you don't have to say it but everybody knows, you know? I want to ask that just so that the listener and all of us can really think through that because I have heard it too many times that well, you know, "If you had two large of a reserve budget it hurts our numbers." I am like, "Oh wait a minute, it is such a must," you know, that you have a reserve budget.

[0:16:58.6] RL: And really, I mean we are two months into it, so our reserve budget was pretty small at that time. The thing we had going for us is we have cap X dollars for the rehab that we were able to divert to some of this but at that point, we had a pretty small reserve budget.

[0:17:12.2] WS: Yeah and I want a reserve budget when we close. Like we are going to raise a chunk of that. We are going to raise a reserve budget so that way we've got it if this happens in mine too. To elaborate on this, the property management issues a little bit, or what happened with that I know there is a big problem there.

[0:17:25.9] RL: Well there is this source of real frustration. So, my partners had another property in Beaumont that they used this property management firm, and they had the property, this property that we were buying and both in Beaumont, Texas. So, we were comfortable with the firm they had on this other property. They had a stellar onsite property manager that was just a super rock star, and on the one we purchased, they had an onsite property manager that had literally lived in the building for 25 years there since it had been built.

And raised her family there and the children were now grown and raised and a lovely woman but, you know, they hadn't raised rent in years and that was obvious and so she was going to have a real hard time doing that business plan that we had identified of raising rents and making capital from this property. So, we had to release her regrettably, a wonderful woman but I think she at the end realized that it was mutual that she didn't want to be there and have to tell all of her friends to raise the rents.

And so, we found another candidate, a lovely woman who like I said had some commercial real estate in multi-family, a heart of gold, a really great work ethic, great communicator with the residents, set in tone. She just didn't really have any of the property management stuff and so I was literally serving as the regional manager on the property for many months. I said I got my honorary PHD degree in Property Management from the school of Hard Knocks by doing this.

Setting rent gross every month, working on that maintenance schedules, working with contractors to make the initial rehab budget and also the fire there. I was literally spending 10 to 15 hours a week in minimum on this property for about six to eight months, as I would call it the regional manager. I am not complaining because I said I got a wealth of an education but that's been something you never want to repeat though. It is one of those experiences in life.

[0:19:21.4] WS: Now that you know how it turned out, right?

[0:19:23.8] RL: Yeah and as I said, you know, when syndicators and other people are looking for deals that is one of the big questions I ask now. So, what is the relationship between the sponsorship group and the property management group? So, have they worked together before? Is that property management group proficient in that submarket? If it is a B property, are they doing B properties or C properties? Are they only doing A's?

You know, you have a multimillion dollar asset that really, you have a 40 or maybe $50,000 employee really with their boots on the ground every day and they're the ones that are really key in terms of tenant relationships, implementing the business plan the new owners want to achieve and you just can't appreciate it until you've had a bad one.

[0:20:06.3] WS: I think that is a great question that you just highlighted there because I don't know that I have heard that before as far as asking, has the operator and the property management company worked together before? That's a great question. For most people, I don't think that I have heard that you know people talk about asking that before. So, I am glad you bought that up because it is important. It is important I mean how well am I going to know my property management company if I haven't worked with them before as opposed to if I have?

[0:20:30.9] RL: It is not a red flag if they haven't worked together before because maybe they are in a new market or something but what is the property management's track record in that asset class in that very niched location, if they've got five properties across the door?

[0:20:43.2] WS: Right especially if you're doing a rehab. It could be nice if we've done that with this management company numerous times, right? At least once before. But no that is awesome but Randy before we run out of time, I want to get to a few other questions and we'd better move on but –

[0:20:56.1] RL: Sorry.

[0:20:56.7] WS: No, this is great content, really good. But what's been the hardest part of this syndication journey for you Randy?

[0:21:03.5] RL: I think the hardest part is I am an analytical type. So, I am sure you have heard the ready-aim-fire illustration. I am a ready-aim-aim-aim-fire guy but once you pull that trigger, I am all in now and I am really, the hardest thing for me is writing that first check, but really glad I did so.

[0:21:20.6] WS: And how are you preparing for this potential downturn that everyone is talking about?

[0:21:24.3] RL: Yeah that is a great question, I personally have a lot of cash on the sidelines waiting for a deal. I think that I am not in any urgency to do a deal unless I am just really comfortable with it because you are going to have to explain that to investors because everybody anticipates that whether it is six months or another three years, we don't know. You really have to be able to explain that, so the underwriting has got to be really well-defined, articulate, and anticipating something like that.

I mean can you still make money at I don't know, 80, 85% occupancy or something like that or if rents, you know you can't grow rents, are they going to stabilize maybe even decline. You have to be able to begin to forecast that. In other parts, some parts of the country are going to be harder hit than others.

[0:22:04.2] WS: That is awesome, great points right there. Great questions we should be asking before investing with somebody. What's a way that you have recently improved your syndication business that we could apply to ours?

[0:22:14.2] RL: I am really kind of returning to basics. So, I guess I told you I still work in a passive as well as a general partner but I am going back and I am doubling down with all of the investors now and reaching out to them personally, especially over the holidays, talking to them not just emails but talking to them, making appointments if they are in the local market to grab a cup of coffee. Continue to build relationships – it is a team sport, as you know.

Building relationships with brokers especially and the local markets I want to be in to identify properties. They're key, as you know, to have that relationship with. Honing some of the website developments and some of the tools along the way, as well as who is really a good partner and so making sure you are equally yoked. You have somebody that is likeminded and has the same objectives that you do.

[0:23:03.1] WS: Many great points there Randy. You know in going through the experience that you had there, you know and I ask most people this but especially with your experience with the fire and dealing with investors through that, what is your best advice for caring for investors so they want to come back to the next deal?

[0:23:20.2] RL: Well, I think you've got different kinds of investors, everybody does. I have a couple of them who are ultra-wealthy, some of them are very modest as well and so it's treating them like you want to be treated. I personally prefer human contact with a voice or video chat or something to catch up and let them know what we are doing, as well as keeping them. So, I think in that example I gained the trust of some that are having to weather the storm.

But I think it is staying in touch and letting them know that, “Hey, I may not contact you every month because I got nothing going on because the market is really tight and I am not going to bug you unless I got something really good to share but please, I hope you are still on the list.” Just checking in periodically. I just prefer to get on the line and talking to somebody and treating them all the same. So, you have ultra-wealthy, you have some modest.

It is just treating them all the same even the person that put 50,000 or $20,000 in your deal as well as the person that put 300K in your deal. It is easy to reach out to the high net worth individual, but that other investor is one, more modestly, will make returns and come back too and they will have more if you are successful.

[0:24:22.1] WS: It is easier to reach out when things are going good.

[0:24:24.0] RL: Yeah, very true.

[0:24:26.5] WS: But I think you know what you did through that deal, reaching out to investors when the fire happened all of that stuff and then even especially the way the returns ended up happening. I mean, I just think you built some solid relationships and how that was handled. Where, initially, they may have been very worried, but I think on the end now it’s like okay. Well, I mean you built some levels of trust there that may take other people many deals.

[0:24:50.4] RL: Well, I wouldn’t wish that anybody would have to go through that but I hope you are right. I hope you are right as the next deal comes along.

[0:24:56.6] WS: So what’s the number one thing that has contributed to your success?

[0:24:59.0] RL: The number one thing that has contributed to my success, I’d like to say that persistence and education. I think for the newer listeners I really encourage you to get involved in some – whether it is local Meetups in your area, in your city, whenever you are at or some of the national mentoring groups. I found that a lot of us invest tens of thousands, hundreds of thousands of dollars possibly in our college education. I think people should be willing to invest in their real estate education, unless they are already in the business or gained it through their parents.

So, education and I say persistence, just staying with it. As you know it is not a no-work environment. There is a lot of work involved in syndication in terms of finding deals. There is a lot of work and, you know, even if you're a passive investor, challenge the sponsor in how they are underwriting, what are their assumptions, what are their assumptions for rental growth and expense growth, cap rate reversions, all of that stuff that are in there. If you don't know that stuff, there is a lot of opportunities to learn it.

[0:26:01.6] WS: So Randy, how do you like to give back?

[0:26:04.0] RL: How do I give back? On the professional side, I give back, I am a coach for the Rod Khleif Organization as I said, I really enjoy that. I make a few dollars, but it is not my intent to make money doing that and then on the personal aim, I know you and I share the adoption goal. I am a father of an adoptive son as well and I like to think that there is still a lot of room for both.

[0:26:25.3] WS: Nice, thank you for sharing that Randy and giving back in that way and tell the listeners how they can get in touch with you and learn more about you.

[0:26:31.6] RL: Absolutely, the easiest way is probably email. It is first name dot last name, randy.langenderfer@invest-ark.com and I am sure you will have that on the show notes form too.

[0:26:47.7] WS: We will, no doubt about it.

[END OF INTERVIEW]

[0:26:49.4] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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